

# **Paving the Way for New Livestock Risk Management Tools: Developing Markets and Regulations**

*presented by*

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**Livestock  
Risk  
Protection**

Price protection for livestock producers

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## Risk Management Agency Products: Summary Information, 2002

Products	Total Premium	Subsidy	Liabilities	Policies	Acres
All Products	\$ 2,919,964,239	\$ 1,743,111,567	\$ 37,336,177,343	1,917,575	215,729,273
APH	\$ 1,255,248,094	\$ 797,450,570	\$ 15,296,232,097	1,181,305	107,720,247
CRC	\$ 856,194,187	\$ 476,279,571	\$ 8,130,670,810	424,506	55,519,363
GRP	\$ 32,306,882	\$ 18,421,020	\$ 992,105,761	15,460	11,167,358
AGR	\$ 9,441,490	\$ 5,095,197	\$ 253,885,892	787	NA

## RMA Livestock Related Products: Summary Information, 2002

Products	Total Premium	Subsidy	Liabilities	Policies	Acres
Forage Production	\$ 18,025,126	\$ 12,503,342	\$ 238,018,733	17,975	2,854,843
Forage Seeding	\$ 1,959,585	\$ 1,187,398	\$ 15,525,832	6,392	149,286
Rangeland	\$ 2,224,114	\$ 1,372,983	\$ 46,737,644	956	8,125,740
AGR, @35%	\$ 3,304,522	1,783,319	88,860,062	787	NA
<b>Total</b>	\$ 25,513,347	\$ 16,847,042	\$ 389,142,271	26,110	11,129,869

# **Livestock Price Risk Insurance Products**

- Livestock Risk Protection (LRP)
- Livestock Gross Margin (LGM)

## **LRP vs. CME Option**

- LRP uses a cash index, and covers some of producers' basis risk;
- LRP covers any level of production (even 1 head);
- LRP has the cost set on a daily basis (producers know what the cost will be); and
- LRP is an insurance policy and not a derivative.

# Regulatory Groups

## *Agencies, Institutions, and Corporations*

- The Risk Management Agency (RMA)
- Insurance and Reinsurance Companies
- State Insurance Commissioners
- National Association of Insurance Commissioners (NAIC)
- Chicago Mercantile Exchange (CME) / Chicago Board of Trade (CBOT)
- Commodity Futures Trading Commission (CFTC)

## *Acts and Regulations*

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- The Federal Crop Insurance Act
- Livestock Reinsurance Agreement

## *Livestock Product Reviewers*

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- Contracted Actuary (by Submitter)
- Five (5) Independent Actuarial and Underwriting Experts
- RMA Staff
- Office of General Counsel
- FCIC Board of Directors (for Approval)

# Potential Livestock Risk Management Tools

## Matrix of the Livestock Insurance Products

Peril	Output (Cows, Pigs, etc.)	Inputs	
		Intensive Crops (Corn, Soy, etc.)	Extensive Crops (Pasture, Forage, Hay)
<b>Yield (Growth)</b>	Possibly Not Feasible	APH, GRP	Forage APH; GRP for Rangeland and Forage; Continuing Research
<b>Price</b>	LRP, LGM	Options, Futures, LGM	Limited, If Any
<b>Revenue</b>	AGR, AGR-Lite Pilots; Possibly Not Feasible	RA, CRC	Unknown
<b>Mortality: Accidents &amp; Named Perils Death Or Loss Due To Disease, Terrorism</b>	Available From Private Market  Research Underway	Hail Available From Private Market  Research Underway	Unknown  Research Underway
<b>Quarantine</b>	Research Underway	Research Underway	Research Underway
<b>Loss of Markets Due To Terrorism</b>	Research Underway	Research Underway	Research Underway

# **Livestock Insurance Market Potential**



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